



**DESCRIPTION OF MODIFICATION TO THE CHAIRMAN'S MARK  
OF THE "RETIREMENT SECURITY AND SAVINGS ACT OF 2000"**

The Senate Committee on Finance has scheduled a markup of a Chairman's Mark of the "Retirement Security and Savings Act of 2000"<sup>1</sup> on September 7, 2000. This document, prepared by the staff of the Joint Committee on Taxation, contains a description of a modification to the Chairman's Mark.<sup>2</sup>

The modification to the Chairman's Mark would substitute for the provisions of H.R. 1102, as passed by the House of Representatives on July 19, 2000, the provisions of the Chairman's Mark, modified as described below. H.R. 1102, as modified by the Chairman's Mark and this modification, would provide for reconciliation pursuant to section 104(a)(2) of the concurrent resolution on the budget for fiscal year 2001.

**I. MODIFICATIONS TO PROVISIONS IN THE CHAIRMAN'S MARK**

**Individual retirement arrangements**

The provisions in the Chairman's Mark relating to individual retirement arrangements ("IRAs") would be modified by adding a provision eliminating the marriage penalty in conversions of Roth IRAs to traditional IRAs. Under the modification, the income limit for such conversions would be \$200,000 for married taxpayers and \$100,000 for all other taxpayers (including married taxpayers filing a separate return). This proposal would be effective for taxable years beginning after December 31, 2000.

**Credit for low- and middle-income savers**

The provision in the Chairman's Mark providing a tax credit for low- and middle-income

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<sup>1</sup> A description of the Chairman's Mark may be found in Joint Committee on Taxation, *Description of the Chairman's Mark of the "Retirement Security and Savings Act of 2000"* (JCX-89-00), September 5, 2000.

<sup>2</sup> This document may be cited as follows: Joint Committee on Taxation, *Description of Modifications to the Chairman's Mark of the "Retirement Security and Savings Act of 2000"* (JCX-92-00), September 7, 2000.

taxpayers would be modified by substituting the following credit rates for the rates described in the Chairman's Mark:

<i>Joint Filers</i>	<i>Heads of Households</i>	<i>All Other Filers</i>	<i>Credit Rate</i>
\$0-\$20,000	\$0-\$15,000	\$0-\$10,000	50%
\$20,001-\$25,000	\$15,001-\$18,750	\$10,001-\$12,500	30%
\$25,001-\$30,000	\$18,751-\$22,500	\$12,501-\$15,000	25%
\$30,001-\$35,000	\$22,501-\$26,250	\$15,001-\$17,500	20%
\$35,001-\$40,000	\$26,250-\$30,000	\$17,501-\$20,000	15%
\$40,001-\$45,000	\$30,001-\$33,750	\$20,001-\$22,500	10%
\$45,001-\$50,000	\$33,751-\$37,500	\$22,501-\$25,000	5%
Over \$50,000	Over \$37,500	Over \$25,000	0%

In addition, the provision of the proposal limiting eligibility for the credit to individuals age 60 and younger would be deleted. Thus, the credit would be available to persons who are age 18 or older, other than individuals who are full-time students or claimed as a dependent on another taxpayer's return.

The modification would expand the provision in the Chairman's Mark requiring the Secretary of Treasury to report annually the number of individuals who claim the credit by requiring, in addition, that the Secretary report to the Senate Committee on Finance and the House Committee on Ways and Means regarding the effect of the bill on pension coverage, including any expansion of coverage for low- and moderate-income workers, levels of pension benefits, quality of coverage, worker's access to and participation in plans, and retirement security. This new report would be required to be submitted no later than four years after the date of enactment.

**Treatment of employer-provided retirement advice**

The provision of the proposal relating to the treatment of employer-provided retirement advice would be modified to add a direction to the Secretary of the Treasury to conduct a study of the present-law rules that permit individuals to access their IRA or qualified retirement plan benefits prior to retirement, including analyses of the use of the existing rules and the extent to which such rules undermine the goal of accumulating adequate resources for retirement. In addition, the Secretary of the Treasury would be directed to conduct a study of the types of investment decisions made by IRA owners and

participants in self-directed qualified retirement plans, including analyses of the existing restrictions on investments and the extent to which additional restrictions would facilitate the accumulation of adequate income for retirement. The studies would be required to be submitted to the Senate Committee on Finance and the House Committee on Ways and Means no later than January 1, 2002.

### **Notice and consent period regarding distributions**

The provision of the proposal relating to the required notice and consent period regarding distributions would be modified to add a requirement that a plan notify participants of the existence of certain differences between the values of optional forms of benefit. If a lump sum distribution is not the actuarial equivalent of an annuity form of distribution available under a plan, the proposal would require the plan to include in the applicable distribution notice, in a manner calculated to be understood by the average participant, a notification that there is a difference in the values of the optional forms of benefit. This provision would be effective for years after December 31, 2000.

## **II. ADDITIONAL PROVISIONS**

The following provisions would be added to the Chairman's Mark.

### **1. Time of inclusion of benefits under section 457 plans**

#### **Present Law**

A "section 457 plan" is an eligible deferred compensation plan of a State or local government or tax-exempt employer that meets certain requirements. For example, amounts deferred under a section 457 plan cannot exceed certain limits. Amounts deferred under a section 457 plan are generally includible in income when paid or made available. Amounts deferred under a plan of deferred compensation of a State or local government or tax-exempt employer that does not meet the requirements of section 457 are includible in income when the amounts are not subject to a substantial risk of forfeiture, regardless of whether the amounts have been paid or made available.<sup>3</sup>

The limits on section 457 plans were first applied to plans of tax-exempt employers pursuant to the Tax Reform Act of 1986 (the "1986 Act"), generally effective for taxable years beginning after December 31, 1986. The limitations of section 457 do not apply to amounts deferred under a plan of a tax-exempt employer by an individual covered under such a plan on August 16, 1986, if the amounts (1) were deferred from taxable years beginning before January 1, 1987, or (2) are deferred from taxable years beginning after December 31,

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<sup>3</sup> This rule of inclusion does not apply to amounts deferred under a tax-qualified retirement plan or similar plans.

1986, pursuant to an agreement that was in writing on August 16, 1986, and on such date provided for a deferral for each taxable year covered by the agreement of a fixed amount or of an amount determined pursuant to a fixed formula. The provision in (2) ceases to apply if there is any modification to the agreement or formula.

### **Description of Proposal**

The proposal would provide that amounts deferred under a section 457 plan of a State or local government would be includible in income when paid.

In addition, the proposal would modify the transition rule adopted in the 1986 Act relating to deferred compensation plans of tax-exempt employers. Under the proposal, the transition rule would apply to agreements providing cost-of-living adjustments to benefits that otherwise satisfy the requirements of the transition rule. As under present law, the grandfather rule would cease to apply if any other modifications are made.

### **Effective Date**

The proposal relating to governmental section 457 plans would be effective for years beginning after December 31, 2000. The proposal relating to plans of tax-exempt organizations would be effective on the date of enactment for cost-of-living increases after September 1993.

## **2. Modifications to the SAVER Act**

### **Present Law**

The Savings Are Vital to Everyone's Retirement ("SAVER") Act<sup>4</sup> initiated a public-private partnership to educate American workers about retirement savings and directed the Department of Labor to maintain an ongoing program of public information and outreach. The Act also convened a National Summit on Retirement Savings held June 4-5, 1998, and to be held again in 2001 and 2005, co-hosted by the President and the bipartisan Congressional leadership. The National Summit brings together experts in the fields of employee benefits and retirement savings, key leaders of government, and interested parties from the private sector and general public. The delegates are selected by the Congressional leadership and the President. The National Summit is a public-private partnership, receiving substantial funding from private sector contributions. The goals of the National Summits are to: (1) advance the public's knowledge and understanding of retirement savings and facilitate the development of a broad-based, public education program; (2) identify the barriers which hinder workers from setting aside adequate savings for retirement and impede employers, especially small employers, from assisting their workers in accumulating retirement savings; and (3) develop

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<sup>4</sup> Pub. L. No. 105-92.

specific recommendations for legislative, executive, and private sector actions to promote retirement income savings among American workers.

### **Description of Proposal**

The proposal would make amendments to the SAVER Act regarding the administration of future statutorily created National Summits on Retirement Savings. It would clarify that such National Summits are to be held in the month of September in 2001 and 2005, and would add an additional National Summit in 2009. To facilitate the administration of future National Summits, the Department of Labor would be given authority to enter into cooperative agreements (pursuant to the Federal Grant and Cooperative Agreement Act of 1977) with its 1999 summit partner, the American Savings Education Council.

Six new statutory delegates would be added to future National Summits: the Chairman and Ranking Member of the House Ways and Means Committee, the Senate Finance Committee, and the Subcommittee on Employer-Employee Relations of the House Committee on Education and the Workforce. Further, the President, in consultation with the Congressional leadership, could appoint up to three percent of the delegates (not to exceed 10) from a list of nominees provided by the private sector partner in Summit administration. The proposal would also clarify that new delegates are to be appointed for each future National Summit (as was the intent of the original legislation) and would set deadlines for their appointment.

The proposal would also set deadlines for the Department of Labor to publish the Summit agenda, give the Department of Labor limited reception and representation authority, and mandate that the Department of Labor consult with the Congressional leadership in drafting the post-Summit report.

### **Effective Date**

The proposal would be effective on the date of enactment.

### **III. DELETIONS OF PROVISIONS OUTSIDE THE SCOPE OF RECONCILIATION INSTRUCTIONS**

The modification to the Chairman's Mark would delete the following provisions that are outside the scope of reconciliation instructions:

- Eliminate IRS user fees for certain determination letter requests regarding employer plans
- Reduce PBGC premiums for small and new plans
- Extension of PBGC missing participants program

- Rules for substantial owner benefits in terminated plans